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Before the
FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

Implementation of Sections of)
The Cable Television Consumer)
Protection and Competition Act)
of 1992)

Rate Regulation)

MM Docket No. 92-266

**SUPPLEMENTAL COMMENTS
IN FURTHER SUPPORT OF
INTERIM BENCHMARK ADJUSTMENTS
FOR LOW DENSITY AND SMALLER CABLE OPERATORS**

The Small Cable Business Association ("SCBA"), by and through its attorneys, Howard & Howard, hereby files these Supplemental Comments to further support its earlier filings with the Commission and to provide additional factual support for certain benchmark adjustments for certain systems.

I. INTRODUCTION

SCBA is a grass-roots organization of over 270 cable businesses typically operating small cable systems and/or small cable companies¹. As pointed out in the *Supplemental Comments* it filed January 31, 1994², the average profile of systems included in the Commission's database used to determine benchmark rates is that of a large (11,000 subscriber), high density (59 homes

¹Over half of SCBA's members have fewer than 1,000 subscribers in total.

²*Supplemental Comments and Plan For Interim Relief For Low Density and Smaller Cable Businesses*, MM Docket No. 92-266 (Dated January 29, 1994 and filed January 31, 1994 ("January 31 *Supplemental Comments*").

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per mile) system and is simply not representative of SCBA's members or many other smaller cable operators.

This lack of representativeness has skewed the benchmark computations away from the financial restraints of low density systems, small systems and small cable companies. While SCBA continues its development and articulation of specific benchmark adjustments, many of the higher costs faced by smaller companies remain difficult to quantify with precision. This difficulty, however, does not diminish the reality that the higher costs actually exist.

Smaller cable companies have unique cost structures evidenced not only by their profit and loss statements, but also their balance sheets and existence of personal guarantees. Members of SCBA are typically family run businesses and are routinely required to personally guarantee all of their debt, frequently requiring the mortgaging of owners' homes. This is in contrast with major companies which have access to sophisticated capital markets.

For example, when was the last time a CEO of a top 10 MSO had to personally guarantee a bank loan, or be forced to mortgage his or her house to raise money to keep a system competitive? It simply does not happen.

Furthermore, such systems serving areas in which higher cost structures are mandated based on density or system size must continue to be supported by the Commission as an incentive to maintain and continue deployment of broadband services to rural America.

A. Types of Adjustments Needed

The "one size fits all" approach to benchmark rate regulation causes economic disparity to operators with higher cost profiles than those reflected in the benchmark average. Specifically,

three factors, each of which may trigger an adjustment to the benchmark, must be evaluated. The three factors and the adjustment threshold of each are:

1. Low Density - Systems with an average density below 59 homes per mile³;
2. Smaller System Size - Systems with fewer than 11,000 subscribers⁴; and
3. Smaller Company Size - Systems not affiliated with an MSO having at least one million subscribers.

Some systems may have one, two, three or none of these attributes. Broad classifications such as "rural," "small town," "suburban" or "large urban" cannot be made based on a single factor such as density⁵.

B. Adjustments for Systems With More Than 1,000 Subscribers

The adjustment factors must be independently weighed for each system. Having fewer than 1,000 subscribers is not a precondition to qualifying for a benchmark adjustment. System size has no impact on the qualification for or computation of a density or a programming cost adjustment (based on company size).

The Commission is fully authorized to provide these benchmark adjustments. The only mandate from Congress relating to systems with fewer than 1,000 subscribers was that administrative burdens for these systems be reduced⁶. In fact, to fulfill its statutory mandate, the

³This is the average density of homes per mile contained in the Commission's benchmark database.

⁴The average system size in the benchmark database was 11,035 subscribers.

⁵For example, a high density system does not necessarily connote a large urban system. Some small systems have high density (i.e., small older communities may have many homes in a very small area). Similarly, not all small cable systems are owned by smaller cable businesses.

⁶47 U.S.C. §543(i).

Commission must allow these "benchmark plus" adjustments in order to permit a "reasonable profit"⁷ while reducing administrative burdens on all cable operators⁸.

For example, a 1,500 subscriber low density system is just as detrimentally affected by costs associated with operating a low density system as is a cable operator with 1,000 subscribers. Permitting these adjustments still preserves an appropriate balance between consumer protection and permitting a workable benchmark system for these operators. For example, adjustments to the rates of systems not affiliated with an MSO of one million subscribers or more would affect less than 34 percent of the cable subscribers.⁹ Similarly, systems of under 10,000 subscribers serve only 22 percent of subscribers, leaving the rates of more than 78 percent of subscriber rates unchanged.¹⁰

C. Need For A Cost Study

SCBA reiterates its recommendation that the only way to accurately and fairly adjust for all cost differentials is for the Commission to conduct the detailed cost study it contemplated in the Fall of 1993. Absent the results of such a study at the present time, SCBA strongly recommends the Commission adopt the proposed adjustments summarized in these Supplemental Comments to provide relief.

⁷47 U.S.C. §543((b)(2)(C)(vii).

⁸To fulfill this statutory mandate for reduction of administrative burdens, the Commission cannot force entire classes of cable operators into wholesale cost-of-service showings because to do so would be inconsistent with this statutory mandate.

⁹MSOs with more than 1 million subscribers provide service to 35.4 million subscribers, out of a total of 53,375,474 or 66.3 percent of basic subscribers according to Cable Television Developments, National Cable Television Association, November 1993.

¹⁰According to the Television and Cable Factbook, only 22 percent of subscribers are served by systems of 10,000 or fewer subscribers.

D. The Actual Adjustments

The proposed amounts of each type of adjustment are summarized in the chart enclosed behind Tab A. Each type of adjustment has been computed in total and then allocated 86 percent to regulated and 14 percent to unregulated services. The allocation was based on the number of channels not subject to and subject to rate regulation, on average, in the Commission's benchmark database versus the total number of channels. SCBA maintains that a per channel allocation is the most fair as any allocation based on revenue would tend to attribute a disproportionate amount of the adjustment to the per channel services, even though operators earn a significantly lower percentage margin on such services compared to basic or other tiered services. Also, by using the benchmark average, the amount of the allocation is not subject to manipulation by anyone.

The computation of the density, system size and company size adjustments are enclosed behind Tabs B, C and D, respectively.

II. DENSITY SENSITIVE ADJUSTMENTS

The weighted average density of the systems in the Commission's benchmark study was 59 homes per mile. Many systems, particularly smaller, more rural systems, do not have densities anywhere near these levels. Consequently, they have greater construction, financing, operational and maintenance costs which are spread over a lower number of subscribers.

The density factor of 59 homes per mile has been translated to a per subscriber amount by multiplying the density by the national average penetration rate of 62 percent¹¹. Use of the

¹¹National Cable Television Association, Cable Television Developments, November 1992, citing A.C. Nielsen Co. statistics.

national average penetration rate eliminates any possible manipulation in the computation of this adjustment.

A. Capital Costs

SCBA has refined and supplemented the data it submitted in its January 31 *Supplemental Comments*. When SCBA submitted these initial computations, it did not have actual plant construction costs available and therefore relied on published statistics. Upon review, these statistics did not represent the average costs of most operators, regardless of size, for the types of systems actually being built. SCBA resubmits its computation using a representative plant construction cost of \$15,000¹².

B. Operating Costs

In addition to increased capital costs, lower density systems incur substantially higher operating costs per subscriber attributable solely to their lower density. Such costs, which do not vary significantly per mile of plant, include pole attachment fees, property taxes, repairs and maintenance, plant utilities, vehicle operating expense, and property insurance. Using the comprehensive financial information computed by Buford Television, Inc.¹³ ("Buford"), on average, Buford incurs \$579 of such costs on an annual basis for each mile of plant. These costs will be the same whether there are 5 or 100 subscribers per mile. It takes the same number of pole attachments, the same electricity, the same taxes, etc. to support one mile of plant.

¹²SCBA submits behind Tab E a summary of actual plant costs based on average information provided by a sample of SCBA members that SCBA believes presents a representative sample of SCBA membership.

¹³The information which is detailed behind Tab B SCBA believes presents a representative sample of costs as it is based on averages of the 183 systems operated by Buford in 8 states.

Behind Tab B, SCBA has computed the adjustment per subscriber when such operating costs must be spread to fewer than the benchmark database's average of 59 homes per mile.

III. SYSTEM SIZE SENSITIVE COSTS

A. Recovery of Current Operating Costs

SCBA presented adjustments based on system size sensitive costs in its January 31 *Supplemental Comments* based on a cost survey of its members last summer. In light of further research of its members' costs, SCBA has modified this submission in two respects. First, a small number of operators responding to the survey had extraordinarily high headend costs apparently due to investments in additional equipment to receive difficult signals or to import distant signals (i.e., microwave). SCBA cleansed the data of several outliers. The normalized headend capital cost was \$79,558.

The second adjustment was the removal of the operating costs. Many costs are difficult to delineate between operating costs that are related to low density and those to small system size. Rather than engaging in accounting allocations of Olympic proportions, to eliminate the possibility of double counting such costs, SCBA has included these adjustments solely as density adjustments. SCBA encloses its proposed adjustment chart behind Tab C.

B. Expansion of Channel Capacity

The benchmark structure makes it almost impossible for small cable systems to add new channels of programming due to the high fixed costs of the equipment necessary to add channels, and the relatively few customers to absorb such costs. These capital costs are the same whether the system has 200, 2,000 or 200,000 subscribers.

As SCBA demonstrates in the computations enclosed behind Tab F, a small cable system operator might never be able to add a new channel either without losing money, or not recovering its investment (without considering the time value of money) for a period of 32 to 68 years.

On a going forward basis, a substantial benchmark adjustment is necessary to provide meaningful incentives for operators choosing to add programming in small systems. The current disincentives mean that small system operators, including those with more than 1,000 subscribers, will be left behind on the dusty rural roads as the "have nots" of the information superhighway.

IV. COMPANY SIZE SENSITIVE COSTS

A. Programming Costs

SCBA in its August 30, 1993 *Comments* represented to the Commission that programming costs for smaller cable businesses are substantially higher than larger companies. This general proposition has been supported by research performed by Paul Kagan Associates ("Kagan"). In its *Cable TV Programming*, April 30, 1992, p. 4 Kagan states:

A notion is widely held--especially among erstwhile cable competitors such as DBS--that large MSOs obtain huge volume discounts off affiliate rate cards....Over the last four years, the "average" network monthly license fee has been about 30 percent below the rate card top.

Kagan's analysis shows that, on average, discounts ranged between 97 percent and 10 percent, depending on the network involved. As evidenced by SCBA members, however, the discounts are not universal. Large MSOs receive programming at greatly reduced rates, vis-a-vis, smaller cable companies.

SCBA has obtained actual large MSO programming rates from reputable industry sources¹⁴. To quantify the difference between the large MSO rates and small company rates, two SCBA members with identical satellite programming line-ups compared their programming costs to the large MSO costs in the report¹⁵. Both of the SCBA members reported total monthly per subscriber costs within one cent of each other. Compared to the large MSO costs, however, the SCBA members were paying 54 percent more for the programming, or an average difference of \$0.0616 per channel.

A further comparison of programming costs of other operators to the large MSO costs revealed similar relationships¹⁶. Therefore, SCBA proposes that systems with higher programming costs be permitted to add \$0.0616 per subscriber per month to its rate for each channel of satellite programming offered.

SCBA leaves to the Commission the cutoff at which MSOs become large enough to be entitled to receive substantial programming discounts. SCBA understands that substantial discounts are generally unavailable at least to MSOs with fewer than one million subscribers.

¹⁴Because of confidentiality considerations, SCBA cannot reveal the sources of the information at this time. Nevertheless, SCBA assures the Commission that it is from reliable sources.

¹⁵A summary of the results is enclosed behind Tab D.

¹⁶Comparisons of other systems' programming costs for their individual line-ups vis a vis the reported MSO costs are also enclosed behind Tab D with differences ranging from 49 to 60 percent.

B. Lack of Additional Unregulated Revenue

In addition to higher programming costs, SCBA reiterates its assertion that systems not affiliated with one of the 25 largest MSOs generally have two fewer premium pay services. SCBA estimates that the systems affiliated with the largest 25 MSOs have monthly revenue streams which are \$2.60¹⁷ greater per subscriber, therefore potentially reducing the amount that must be recovered from basic tier revenues. A similar situation exists with smaller systems not being able to afford advertising insertion equipment and thereby forgoing as much as \$4.00 per subscriber of monthly unregulated revenue. Smaller companies live or die on their revenue from tiered services. Although SCBA is not currently proposing a benchmark adjustment for such amounts, they are illustrative of the disparities between smaller and larger systems and operators. To place smaller systems on parity, their rates should be increased for this adjustment.

V. OTHER SMALL SYSTEM CONSIDERATIONS

A. Rate Reductions Will Not Add Subscribers

The Commission cannot assume that decreases in rates will be made up by increases in subscriber volume. This is especially true with respect to small systems. Take for example, a 500 subscriber system that charges \$20.00. Assume rates are rolled back by 10 percent to \$18.00. The resulting revenue loss of \$1,000 will require the addition of 56 new subscribers just to remain revenue neutral. This represents an 11 percent increase in penetration, an increase in many rural areas that is simply impossible.

¹⁷See SCBA January 31 *Supplemental Comments*, pp. 9 - 10.

B. Absence of Monopolistic Profits

One also cannot simply presume that operators of low density or smaller cable systems are reaping monopolistic profits. SCBA's data, and knowledge of the plight of many of its members, confirms this fact. Of the systems responding to its survey last summer, almost half of the systems reported pre-tax losses in 1991 and approximately 35 percent reported losses in 1992. Many of the systems reporting profits reflected minimal levels of profitability.

VI. MUNICIPAL OVERBUILD SYSTEMS SHOULD BE REMOVED FROM THE BENCHMARK DATABASE

The Commission's database used to determine the benchmark rates included a number of municipal systems that overbuilt an incumbent operator. Their inclusion is inappropriate since the rates charged are often below cost and in some instances are subsidized by other municipal revenue sources (i.e. property taxes or electric utility revenue).

Looking back at the period upon which the benchmark rates were premised (September 30, 1992), the following municipal overbuild systems were losing money far over and above any initial start-up losses:

| <u>Municipality</u> | <u>Accounting Period</u> | <u>Loss</u> | <u>Revenues</u> |
|---------------------|--------------------------|-------------|-----------------|
| Coleraine, MN | Cumul. Loss 3/92 | (\$186,339) | N/A |
| Elbow Lake, MN | Dec. 31, 1991 | (\$ 28,645) | \$ 55,840 |
| Glasgow, KY | June 30, 1990 | (\$244,195) | \$157,438 |
| Paragould, AR | June 30, 1991 | (\$219,065) | \$253,675 |
| | March 31, 1992 | (\$ 68,893) | \$177,000 |
| Westbrook, MN | Dec. 31, 1991 | (\$ 10,740) | \$ 19,960 |

Because of these large financial losses, two of the systems have gone beyond dipping into the general fund by raising taxes. Property taxes in Paragould have tripled because the bond holders exercised their rights to require the city to triple taxes if the revenues from the cable system were insufficient to service its debt. Similarly, it has recently been reported that each and every municipal electric customer in Morgantown is paying a monthly subsidy to the cable system. SCBA has enclosed various excerpts of annual and/or interim financial statements as well as press reports evidencing cross-subsidization of such system operations behind Tab G.

Clearly, to hold these municipal systems out as models of efficiency and competitive rates is inappropriate. If they are not redacted from the benchmark rate regression analysis, the rates for smaller operators will remain artificially low. If these systems are to remain in the database, the full amount of their cross-subsidizations should be added to the rates charged.

VII. NEED FOR SIMPLIFIED COST-OF-SERVICE SHOWINGS

Even with adoption of SCBA's proposed adjustments, due to unique operating conditions or other cost structures, the adjusted benchmark rates will still not fit some smaller operators. For these operators, especially those with fewer than 1,000 subscribers, the need is still great for a simplified cost-of-service showing. Absent such simplified procedures, the cost of making such showings will be prohibitive leaving such operators without a safety net.

VIII. SUMMARY

SCBA has presented additional factual evidence to support three types of adjustments: those based on system density, system size and company size. Without these adjustments to cover the increased costs of many cable systems that do not fit the large, high density system profile that predominates the Commission's benchmark database, these systems will be forced

wholesale into cost-of-service filings, further raising costs for the cable systems, their subscribers, franchising authorities and the Commission.

Without these adjustments, customers of many rural cable systems could truly become information "have nots" because the company serving them will not have the financial resources or revenues and profits required to upgrade their systems to offer the telecommunications services of the future.

SCBA has come to the Commission requesting adoption of adjustment schedules that outline only the most significant, most clearly quantified and most clearly classified of the adjustments. This is not a holiday gift wish list or a negotiating position where SCBA asks for more than it needs in the hope of only receiving a fraction. There are many other costs incurred by these cable systems which are not as easily quantified or classified, but are nevertheless incurred by these systems¹⁸. Therefore, the Commission should adopt all of the adjustments

¹⁸For example, many low density systems operate in widely disbursed rural areas. These systems incur significant telephone costs as they provide "800" number calling to their subscribers. Buford Television, is a prime example. In 1992, it spent \$500,000 in telephone costs to service its then 78,000 subscribers, or an average of \$6.36 per subscriber. These costs are simply not incurred by urban systems.

proposed by SCBA in an effort to mitigate much of the inequity of the current benchmark system as it relates to SCBA's members.

Respectfully submitted,

**SMALL CABLE BUSINESS
ASSOCIATION**

Dated: February 15, 1994

By: 

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A

Summary Report

(See Tab B for Details)

(See Tab C for Details)

Inventory of Company
(See Tab D for Details)

\$0.0616

B

Major Density-Based Adjustments

Small Cable Business Association

February 15, 1994

(Amounts (1) to be added to monthly subscriber bill for all regulated services)

| | | | | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Density of Homes Per Mile | 20 | 25 | 30 | 35 | 40 | 45 | 50 | 55 | 59 |
| Density of Subscribers Per Mile | 12 | 16 | 19 | 22 | 25 | 28 | 31 | 34 | 37 |
| Recovery of Construction Costs | \$5.55 | \$3.87 | \$2.75 | \$1.95 | \$1.35 | \$0.88 | \$0.51 | \$0.20 | \$0.00 |
| Incremental Operating Expenses | \$2.57 | \$1.79 | \$1.27 | \$0.90 | \$0.63 | \$0.41 | \$0.24 | \$0.09 | \$0.00 |
| Total Adjustment | \$8.12 | \$5.66 | \$4.02 | \$2.85 | \$1.98 | \$1.29 | \$0.75 | \$0.30 | \$0.00 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

(1) Amounts must first be prorated between the number of channels on regulated and unregulated services.

Recovery of Density Sensitive Costs -- Capital

Small Cable Business Association
February 15, 1994

Density Variables:

| | Benchmark Average | | | | | | | |
|---|----------------------|-----|-----|-----|-----|-----|-----|-----|
| Homes Per Mile | 20 | 25 | 30 | 35 | 40 | 45 | 50 | 55 |
| Average Penetration (Benchmark Average) | 62% | 62% | 62% | 62% | 62% | 62% | 62% | 62% |
| Density of Subscribers Per Mile | 12 | 16 | 19 | 22 | 25 | 28 | 31 | 34 |

Recovery of Construction Costs

| | | | | | | | | |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Original Cost Per Mile (Note 1) | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Depreciable Life (Years) | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Monthly Depreciation | \$104.17 | \$104.17 | \$104.17 | \$104.17 | \$104.17 | \$104.17 | \$104.17 | \$104.17 |
| Cost Per Subscriber | \$8.40 | \$6.72 | \$5.60 | \$4.80 | \$4.20 | \$3.73 | \$3.36 | \$3.05 |
| Benchmark Average | (\$2.85) | (\$2.85) | (\$2.85) | (\$2.85) | (\$2.85) | (\$2.85) | (\$2.85) | (\$2.85) |
| Increased Monthly Cost Per Subscriber | \$5.55 | \$3.87 | \$2.75 | \$1.95 | \$1.35 | \$0.88 | \$0.51 | \$0.20 |
| | | | | | | | | |

Note 1 - Original cost based on information collected from representative sample of SCBA members. See Tab E for support.

Note 2 - Amounts must be first prorated between the number of channels on regulated and unregulated services.

Recovery of Density Sensitive Costs -- Operating

Small Cable Business Association

February 15, 1994

| | | | | | | | | Benchmark Average |
|--|----------|----------|----------|----------|----------|----------|----------|----------------------|
| <i>Density Variables:</i> | | | | | | | | |
| Homes Per Mile | 20 | 25 | 30 | 35 | 40 | 45 | 50 | 55 |
| Average Penetration (Benchmark Average) | 62% | 62% | 62% | 62% | 62% | 62% | 62% | 62% |
| Density of Subscribers Per Mile | 12 | 16 | 19 | 22 | 25 | 28 | 31 | 34 |
| <i>Utility Pole Rental Expense:</i> | | | | | | | | |
| Per Mile/Year | \$101 | \$101 | \$101 | \$101 | \$101 | \$101 | \$101 | \$101 |
| Per Subscriber/Year | \$8.15 | \$6.52 | \$5.43 | \$4.65 | \$4.07 | \$3.62 | \$3.26 | \$2.96 |
| Per Subscriber/Month | \$0.68 | \$0.54 | \$0.45 | \$0.39 | \$0.34 | \$0.30 | \$0.27 | \$0.25 |
| <i>Property Tax Expense:</i> | | | | | | | | |
| Per Mile/Year | \$131 | \$131 | \$131 | \$131 | \$131 | \$131 | \$131 | \$131 |
| Per Subscriber/Year | \$10.56 | \$8.45 | \$7.04 | \$6.04 | \$5.28 | \$4.70 | \$4.23 | \$3.84 |
| Per Subscriber/Month | \$0.88 | \$0.70 | \$0.59 | \$0.50 | \$0.44 | \$0.39 | \$0.35 | \$0.32 |
| <i>Repair & Maintenance Expense:</i> | | | | | | | | |
| Per Mile/Year | \$91 | \$91 | \$91 | \$91 | \$91 | \$91 | \$91 | \$91 |
| Per Subscriber/Year | \$7.34 | \$5.87 | \$4.89 | \$4.19 | \$3.67 | \$3.26 | \$2.94 | \$2.67 |
| Per Subscriber/Month | \$0.61 | \$0.49 | \$0.41 | \$0.35 | \$0.31 | \$0.27 | \$0.24 | \$0.22 |
| <i>Utilities Expense:</i> | | | | | | | | |
| Per Mile/Year | \$141 | \$141 | \$141 | \$141 | \$141 | \$141 | \$141 | \$141 |
| Per Subscriber/Year | \$11.37 | \$9.10 | \$7.58 | \$6.50 | \$5.69 | \$5.05 | \$4.55 | \$4.13 |
| Per Subscriber/Month | \$0.95 | \$0.76 | \$0.63 | \$0.54 | \$0.47 | \$0.42 | \$0.38 | \$0.34 |
| <i>Vehicle Operating Expense:</i> | | | | | | | | |
| Per Mile/Year | \$61 | \$61 | \$61 | \$61 | \$61 | \$61 | \$61 | \$61 |
| Per Subscriber/Year | \$4.92 | \$3.94 | \$3.28 | \$2.81 | \$2.46 | \$2.19 | \$1.97 | \$1.79 |
| Per Subscriber/Month | \$0.41 | \$0.33 | \$0.27 | \$0.23 | \$0.20 | \$0.18 | \$0.16 | \$0.15 |
| <i>Property Insurance Expense:</i> | | | | | | | | |
| Per Mile/Year | \$54 | \$54 | \$54 | \$54 | \$54 | \$54 | \$54 | \$54 |
| Per Subscriber/Year | \$4.35 | \$3.48 | \$2.90 | \$2.49 | \$2.18 | \$1.94 | \$1.74 | \$1.58 |
| Per Subscriber/Month | \$0.36 | \$0.29 | \$0.24 | \$0.21 | \$0.18 | \$0.16 | \$0.15 | \$0.13 |
| <i>Total Primary Expenses</i> | | | | | | | | |
| <i>Directly Affected By Density:</i> | | | | | | | | |
| Per Mile/Year | \$579 | \$579 | \$579 | \$579 | \$579 | \$579 | \$579 | \$579 |
| Per Subscriber/Year | \$46.69 | \$37.35 | \$31.13 | \$26.68 | \$23.35 | \$20.75 | \$18.68 | \$16.98 |
| Per Subscriber/Month | \$3.89 | \$3.11 | \$2.59 | \$2.22 | \$1.95 | \$1.73 | \$1.56 | \$1.41 |
| Benchmark Average | (\$1.32) | (\$1.32) | (\$1.32) | (\$1.32) | (\$1.32) | (\$1.32) | (\$1.32) | (\$1.32) |
| Increased Monthly Cost Per Subscriber | \$2.57 | \$1.79 | \$1.27 | \$0.90 | \$0.63 | \$0.41 | \$0.24 | \$0.09 |
| | | | | | | | | |

C

Recovery of Costs Sensitive to System Size

Small Cable Business Association
February 15, 1994

February 15, 1994

| | Benchmark Average | | | | | | | | | | | | |
|--------------------------------------|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Number of Subscribers Per System | 500 | 1000 | 1500 | 2000 | 3000 | 4000 | 5000 | 6000 | 7000 | 8000 | 9000 | 10000 | 11000 |
| Headend Capital Costs (1) | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 | \$79,558 |
| Depreciable Life (Years) | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Monthly Depreciation | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 | \$552.49 |
| Cost Per Subscriber | \$1.10 | \$0.55 | \$0.37 | \$0.28 | \$0.18 | \$0.14 | \$0.11 | \$0.09 | \$0.08 | \$0.07 | \$0.06 | \$0.06 | \$0.05 |
| Cost Per Benchmark Average | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) | (\$0.05) |
| Addition to Total Benchmark Rate (2) | \$1.05 | \$0.50 | \$0.32 | \$0.23 | \$0.13 | \$0.09 | \$0.06 | \$0.04 | \$0.03 | \$0.02 | \$0.01 | \$0.01 | \$0.00 |
| | | | | | | | | | | | | | |

Note 1 - Cost based on average results of SCBA member survey.

Note 2 - Gross adjustment must be prorated by each system based on the number of channels on tiers subject to regulation versus total channels.

D

Recovery of Costs Sensitive to Company Size

Programming Cost Differentials

Number of Total Subscribers

Sample Line-Up

Arts & Entertainment
 American Movie Classics
 CNBC
 CNN (w/TBS,HLN,TNT)
 Comedy Central
 C-SPAN 1
 Discovery
 ESPN
 Family Channel
 Learning Channel
 Lifetime
 MTV
 Nashville
 Nickelodeon
 TNT
 USA Network
 Weather Channel
 WGN
 WTBS
 WOR

| Large MSO Cost | Average SCBA Cost | Company One* | Company Two* |
|-------------------|-------------------------|-----------------|-----------------|
| N/A | | 68,000 | 10,000 |
| 0.0800 | N/A | Not Disclosed | 0.1300 |
| 0.2100 | N/A | Not Disclosed | 0.3000 |
| 0.0800 | N/A | Not Disclosed | 0.0850 |
| 0.2600 | N/A | Not Disclosed | 0.2600 |
| 0.0625 | N/A | Not Disclosed | 0.1300 |
| 0.0260 | N/A | Not Disclosed | 0.0490 |
| 0.0800 | N/A | Not Disclosed | 0.1000 |
| 0.4200 | N/A | Not Disclosed | 0.5400 |
| 0.0837 | N/A | Not Disclosed | 0.1000 |
| 0.0350 | N/A | Not Disclosed | 0.0600 |
| 0.0350 | N/A | Not Disclosed | 0.1400 |
| 0.0500 | N/A | Not Disclosed | 0.2200 |
| 0.0700 | N/A | Not Disclosed | 0.1900 |
| 0.1000 | N/A | Not Disclosed | 0.2200 |
| 0.4000 | N/A | Not Disclosed | 0.4000 |
| 0.1950 | N/A | Not Disclosed | 0.2500 |
| 0.0430 | N/A | Not Disclosed | 0.1070 |
| 0.0170 | N/A | Not Disclosed | 0.1050 |
| 0.0100 | N/A | Not Disclosed | 0.0400 |
| 0.0200 | N/A | Not Disclosed | 0.1000 |
| 2.2772 | 3.5085 | 3.5000 | 3.5170 |

Average SCBA Member Cost

\$3.51

Total Large MSO Cost

\$2.28

Premium for Small Companies

\$1.23

Percentage Premium

54.07%

Dollar Premium Per Satellite Channel

\$0.0616

* Company One and Company Two are SCBA members that disclosed this information on condition of anonymity.

Company Size Cost Comparison - Company Three*

| | Large MSO Cost | Company Three* | Difference |
|------------------------------------|-------------------|-------------------|------------|
| Number of Total Subscribers | N/A | 3,800 | |
| Sample Line-Up | | | |
| Arts & Entertainment | 0.0800 | 0.1300 | 0.0500 |
| American Movie Classics | 0.2100 | 0.2300 | 0.0200 |
| CNBC | 0.0800 | 0.0800 | 0.0100 |
| CNN (w/TBS, HLN, TNT) | 0.2800 | 0.2800 | 0.0000 |
| C-SPAN 1 | 0.0280 | 0.0380 | 0.0120 |
| Discovery | 0.0800 | 0.1650 | 0.0850 |
| ESPN | 0.4200 | 0.6000 | 0.1800 |
| Family Channel | 0.0637 | 0.1110 | 0.0273 |
| Lifetime | 0.0350 | 0.0500 | 0.0150 |
| Nashville | 0.0700 | 0.1950 | 0.1250 |
| Nickelodeon | 0.1000 | 0.2900 | 0.1900 |
| TNT | 0.4000 | 0.4200 | 0.0200 |
| USA Network | 0.1950 | 0.2500 | 0.0550 |
| Weather Channel | 0.0430 | 0.0980 | 0.0550 |
| WGN | 0.0170 | 0.1032 | 0.0862 |
| WTBS | 0.0100 | 0.1100 | 0.1000 |
| | 2.1087 | 3.1412 | 1.0315 |

Percentage Premium 48.89%

*Company Three is an SCBA member that disclosed this information on the condition of anonymity